

Magni-Tech Industries Bhd

Results Update

BUY

Current Price	RM 5.71
Target Price	RM 6.78
Consensus Price	RM 6.59

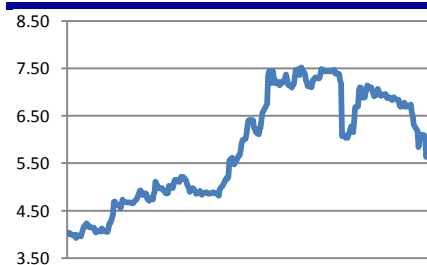
Key Statistics

Bloomberg Ticker	MTI MK
Masa Ticker / Stock Code	MAGNI/7087
Shares Issued (m)	162.7
Market Capitalisation (RM'm)	929
52 Week Hi/Lo Price (RM)	7.92/3.998
Avg Trading Volume (3-mth)	315,986
Est Free Float (m)	70.8
YTD Returns (%)	40.98
Beta (x)	0.54

Major Shareholders (%)

Poay Seng Tan	19.90
KP Holdings Sdn Bhd	13.09
Jaffar Kamarudin Bin'	6.64
Kok Ping Tan	5.17

1-Year Share Price Performance



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More hiccups emerge as FYE Apr 2018 progresses

We have revised our call on Magni-Tech Industries Bhd to BUY after a recent selloff, with a lower target price of RM6.78 (+20.4% upside) based on SOP valuation. Our topline assumption for FY18/19 needs another revision down as the pace at which its operating environment appears to be growing more challenging picks up in forthcoming quarters. Earnings are set to dip somewhat for FYEApr18 as wage pressures in Vietnam rise and orders from Nike were affected by 1) sluggish US retail sales growth 2) a style range rationalisation by 25% starting Jan 2018 3) Adidas market share gains 4) forex impact as the Ringgit firms. To Magni's credit, it still enjoys strong prospects 1) balance sheet remains strong 2) it should see volume payoffs as Nike completes its style rationalisation program re-focusing on its in-favour styles 3) FY18/FY19 capacity expansion is still on track. While the share price suffered near term on failure to meet elevated growth expectations, we see early results of cost containment on margins. Nike's more focused style range will allow Magni some efficiency gains after temporarily lower volume settles down.

Results Review & Highlights

With turnover lower at RM252.3m (-9.8% YoY, -14.1% QoQ), Magni registered core earnings of RM26.6m (-26.3%YoY,+12.0%QoQ) for 2QFY18. Garment revenue clocked in at RM226.7m (-8.7%YoY, -15.3%QOQ), coming from a falloff in orders as its prime customer Nike lost market share and prepare to trim its style range. The packaging unit revenue stood at RM26.2m (-18.8% YoY, -2.1% QoQ) following the cessation of the offset print packaging business in 4QFY17. Revenue for the rump corrugated carton and flexible plastic business fell a marginal 1%YoY though segment profits fell 55.1%QoQ/61.1%YoY. FYEApr18 group results YTD were well below ours as well as consensus expectations, at 30.7% and 35.1% of full year expectations respectively due to lower-than-expected turnover/margins. With a forex loss of RM0.7m (2QFYApr17: RM0.7m gain), PBT margins were pressured as wages rose in Vietnam and Malaysia and liner & medium and resin costs rose for the packaging unit. Minimum wages in Vietnam saw a 7.3% hike in Jul17. Another ~6.5% hike looms in early 2018. But cashflows held up well and a second interim dividend of 4.5 sen (1QFYApr18: 3.5 sen) was declared, on track for a reduced FYEApr18f dividends of 18.5 sen.

Table 1 : Earnings Forecasts

FYE 30 th Apr	FY15	FY16	FY17	FY18(f)	FY19(f)
Revenue (m)	716.4	854.1	1,139.9	1,062.0	1,120.0
Pretax Profit (m)	69.4	107.3	154.3	108.7	135.8
Net Profit (m)	52.2	82.1	120.1	82.5	103.1
EPS (sen)	32.1	50.5	73.8	50.7	63.4
Pretax margin (%)	9.7	12.6	13.5	10.2	12.1
Net Profit margin (%)	7.3	9.6	10.5	7.8	9.2
PER (x)	17.6	11.2	7.6	11.1	8.9
DPS (sen)	10	18	23	18.5	20
Dividend Yield (%)	1.8	3.2	4.1	3.3	3.6
ROE (%)	20.6	27.6	32.8	19.0	20.8
ROA (%)	15.5	20.6	24.8	22.5	20.8
Gearing Ratio (%)	net cash	net cash	net cash	net cash	net cash
BV/Share	1.68	1.98	2.51	2.84	3.27
Price/Book Ratio (x)	3.36	2.84	2.24	1.99	1.72

Table 2: Financial Highlights

FYE 30th Apr	2Q18	1Q18	% chg QoQ	2Q17	% chg YoY	1HFY18	1HFY17	% chg YoY
Revenue	252.32	293.71	-14.1%	279.79	-9.8%	546.03	551.18	-0.9%
Operating Expenses	(225.70)	(269.95)	-16.4%	(243.69)	-7.4%	(495.64)	(490.21)	1.1%
Other Operating (expenses)/Income	(0.63)	(1.19)	-47.2%	0.84	-174.5%	(1.82)	4.32	-142.0%
PBT	26.00	22.58	15.1%	36.94	-29.6%	48.57	65.29	-25.6%
Investment Related Income	1.22	3.29	-62.9%	0.76	60.2%	4.51	3.54	27.5%
Finance Costs	(0.16)	(0.17)	-8.7%	(0.15)	8.2%	(0.33)	(0.30)	12.2%
Costs on cessation of business line	0.00	0.00		0.00		0.00	0.00	
PBT	27.06	25.70	5.3%	37.56	-28.0%	52.76	68.54	-23.0%
Tax Expense	(6.56)	(6.11)	7.4%	(9.04)	-27.4%	(12.67)	(16.49)	-23.2%
PAT	20.50	19.59	4.7%	28.52	-28.1%	40.09	52.05	-23.0%
Non-controlling interests	0.00	0.00		(0.00)		0.00	(0.00)	
PAT/MI	20.50	19.59	4.7%	28.52	-28.1%	40.09	52.05	-23.0%
PBT Margin (%)	10.3%	7.7%		13.2%		8.9%	11.8%	
Effective Tax Rate (%)	24.2%	23.8%		24.1%		24.0%	24.1%	

Table 3: Segment Breakdown

Revenue/Operating Profits	2Q18	1Q18	QoQ chg (%)	2Q17	YoY chg (%)
Revenue					
Packaging	25.61	26.17	-2.1%	31.53	-18.8%
Garment Manufacturing	226.71	267.55	-15.3%	248.26	-8.7%
Total Revenue	252.32	293.71		279.79	
PBT					
Packaging	0.59	1.31	-55.1%	1.51	-61.1%
Garment Manufacturing	25.52	21.31	19.8%	35.49	-28.1%
Total Operating Profit	26.11	22.62		37.00	
Operating Margins (%)					
Packaging	2.3%	5.0%		4.8%	
Garment Manufacturing	11.3%	8.0%		14.3%	

Source: Company, Inter-Pacific

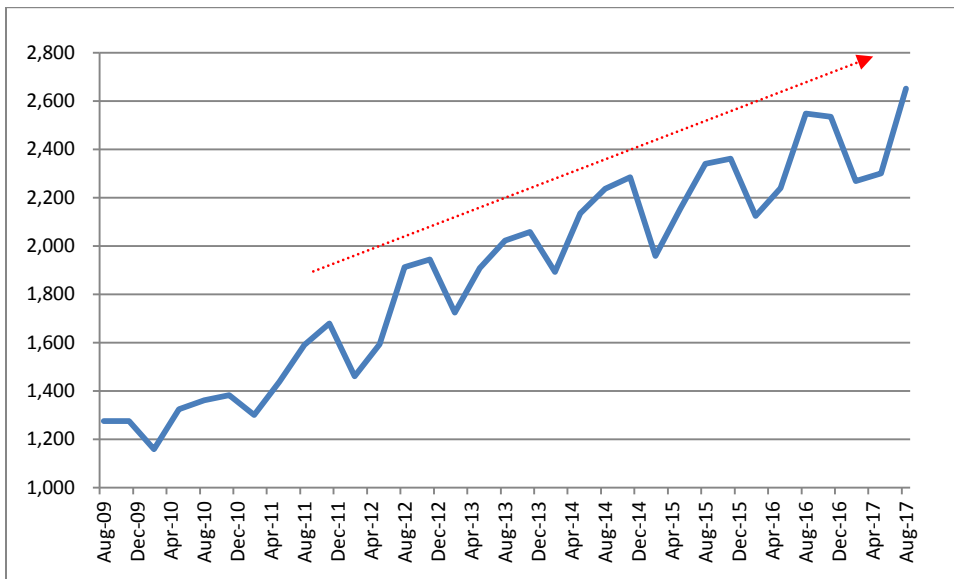
Valuation and Recommendation

Assuming the packaging business stabilises in the coming quarters, we see it reasonable to expect operating margins to begin to stabilise after 4QFYApr 18 when wage hikes in Vietnam work their way through the income statement. A stronger Ringgit should help stabilise the packaging segment’s margins. Better cost management has already begun to show results as QoQ, operating margins for the garment business have rebounded. We expect orders from Nike to recover in due course as we have seen no dip at hand in Nikes reported revenues (see chart below) and the latest US retail industry data point to the loss of market share to Adidas tapering off sharply.

Cashflows have been stable enough for management to begin restoring dividends towards the levels observed last year though they will still fall short due to the sharp curtailment of declared dividends in 1QFYApr2018. For the whole of FYApr2018, we expect dividends to fall to 18.5 sen per share compared to the total of 23.0 sen for the whole of FYApr 2017. This will still represent an attractive dividend yield of 3.3%.

Based on a mean of the peak and trough valuations observed over the course of the current financial year, we expect PER valuation to settle at a still undemanding 11.1x FYApr2018 earnings which are admittedly on course for a step down from the level expected earlier this year. The net cash per share stands at RM1.00 per share, a level not inconsequential to valuing the share. Our SOP valuation of RM6.78 suggests there is now a BUY opportunity notwithstanding bruised sentiments at the moment.

Graph 1: NIKE Apparel Segment Past Revenue Trends (USD m)



Source: Bloomberg

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(ii) As of December 15, 2017, the analyst(s) who prepared this report, and the associate(s), has / have an interest in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report: (a) Pong Teng Siew: nil.

Signed



Pong Teng Siew
Director
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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